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The U.S. welfare state has been under attack from both sides of the aisle since the mid-1970s. Using the lens of history, the following pages will argue that neither the rise of the welfare state in the 1930s nor the current attack were merely accidental. Instead, each was a response to a particular crisis of profitability because the institutional arrangements that had created the conditions for profit-making in the prior fifty years had deteriorated. The policies no longer worked for the powers-that-be and had to be "reformed."

The collapse of the American economy in the 1930s led to the rise of the welfare state.[1] At that time, the national elite blamed their economic problems on failures of the market and saw greater government spending as the way out. They counted on the government to offer a New Deal that would restore profits by fostering economic growth and muting social unrest sparked by the Great Depression.

A second major crisis of profitability surfaced in the mid-to-late 1970s. This time, the leaders in business and government blamed their economic woes on public programs that had grown since the Depression, the gains of social movements, and "personal irresponsibility." Their solution, known as Neoliberalism but also Reaganomics or Supply-Side Economics, led to another restructuring of the political economy, one that limited the role of the state, especially the welfare state.

The First Economic Crisis: The Rise of the U.S. Welfare State, 1935 to 1975

The U.S. welfare state emerged in 1935, some fifty years after Western European nations had invested in social welfare. Before this time, most U.S. social welfare provision had been the province of cities and the states. But the 1929 stock market collapse made it clear that the prevailing laissez-faire structures

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that had fueled economic growth since 1890 had faltered. The deterioration of these prior institutional arrangements, which had created the conditions for profit making, led the elite to conclude that a more active state was needed to save capitalism from itself. Faced with extreme, material hardship during the Depression, the dispossessed took to the streets. They too demanded a new and stronger response from government.

The resulting New Deal programs ushered in a major restructuring of the political economy that included an expanded role for the government in many arenas, including social welfare. Generally viewed as the birth of the modern welfare state in the United States, among other things, the 1935 Social Security Act transferred social welfare responsibility from the states to the federal government and created an entitlement to income support. The historic shift in social policy was made legitmate in the late 1930s by two events. The Supreme Court declared the constitutionality of federal responsibility for the general welfare, and officialdom accepted the economic theory of the British economist, John Maynard Keynes, that called for greater government spending to increase aggregate demand and otherwise stimulate economic growth.

Restoring Profitability: The Functions of the Welfare State

From 1945 to 1975 — often called "the golden era" of capitalism — the welfare state grew in response to population growth, increased need for assistance, and the victories of the increasingly militant trade union, civil rights, women's liberation, and other movements. The new welfare state helped to save capitalism from itself by carrying out a complex set of social, economic, and political functions that mediated poverty, enhanced profits, and muted social unrest.

Social Functions The social functions of the welfare state included both relief and regulation. Welfare state programs offered relief by providing both a minimum level of income below which no one was expected to live and social services to ensure daily functioning. But the welfare state also regulated the lives of clients by requiring recipients to conform to white middle-class norms in order to receive assistance.

Economic Functions The welfare state programs also offered numerous economic benefits to business and industry — activities that at times weakened the social function of relief. By putting cash into people's hands the welfare state ensured the daily consumption of goods and services produced by business. Cash assistance also cushioned employers (and consumers) against economic loss during periodic economic downturns. Business profited as well because cash benefits pressed wages down. That is, cash grants supplemented wages, which enabled employers to pay less. Restrictive eligibility rules and low benefits forced recipients into the bottom rungs of the labor market where an enlarged supply of labor also lowered wage payments. The nation's health, education, training, and social service programs further supplied employers with a healthy, productive, and properly socialized work force at taxpayer's expense.

Finally, the welfare state supported profits by mediating the tension between the requirements of profitable production and requirements for effective family maintenance. For example, profitable production depends on the ability of families to manage consumption; to ensure the productivity of family members; and to care for those too old, young, or ill to support themselves. Paradoxically, low wages, high unemployment, and meager public benefits on which profits also depend lower the standard of living and undercut the capacity of families to carry out these critical care-taking tasks. The growing welfare state eased the tension between profits and need by subsidizing, however minimally, family maintenance — typically supported by women's unpaid labor in the home.[2]

Political Functions On the political front, the welfare state helped to maintain social and political stability. As noted above, its rules and regulations typically enforced work and family norms and otherwise controlled daily behavior. The provision of benefits also quelled the discontent that arose when inequalities built into the market economy contradicted the democratic promise of equal opportunity for all. When the resulting protests threatened to disrupt the smooth functioning of the economy on which profitable production depended, the government sought to restore order by negotiating reforms to ease the discontent and to otherwise legitimize the system as fair to all. Historically, the state has also repressed dissent, often by force.

The Second Crises: The Fall of the Welfare State From 1975 to the Present

From 1935 to1975, the expanding welfare state sustained the above functions with reasonable success. But everything changed in the mid-1970s as structural shifts in the global economy set off a second major crisis of profitability. The changes — third world revolutions, reduced access to cheap raw material, the loss of U.S. world hegemony, mounting international economic competition, and the victories of U.S. social movements — eventually weakened the institutional arrangements set up in the 1930s to promote profits, political stability, and family well-being.[3] This time, the national elite decided the welfare state was part of the problem and argued for its demise. What had happened?

For one, de-industrialization at home and the exportation of production abroad left corporate America less reliant on U.S. workers. With this, business became less and less willing to support welfare state programs that previously helped them to maintain the current and future work force and to appease social movements. In addition, the elite argued that high domestic spending had enlarged the deficit, caused interest rates to rise, increased the cost of borrowing, and otherwise interfered with investment and economic growth.

Finally, the postwar gains of social movements — especially higher wages and more generous welfare benefits — raised both the standard of living and the political costs of maintaining the social peace. Like a strike fund, the welfare state had emboldened workers. It provided an alternative source of income that reduced workers' fears of unemployment. This, in turn, strengthened the bargaining power of workers vis-à-vis employers. Income supports also made it possible for women to choose welfare over work or marriage and to decide to raise children on their own, while civil rights gains undercut white hegemony. No wonder benefits remained so low!

At the same time, in the 1980s, the New Right had gained a strong grip on U.S. public policy. Troubled by changes in the racial and gendered status quo, its leaders blamed the welfare state for creating a "crisis" in the family (that is, the employment of women, high rates of divorce, single motherhood, greater female autonomy, and gay rights). They called for dismantling the welfare state as well because it undermined "personal responsibility," usurped parental authority, effectively weakened traditional "family values," and enhanced civil rights for persons of color.[4]

Three Decades of Neo-Liberalism

The resulting attack on the welfare state is part of a broader neo-liberal strategy, designed to restore profitability by downsizing the state and redistributing income and wealth upward from the have-nots to the haves. Contemporary neo-liberalism revives classical laissez-faire economic theory that was developed in the eighteenth and nineteenth centuries by Adam Smith and David Ricardo. Seeking to undo mercantilist policies that held back emerging new forms of commerce, Smith and Ricardo argued against government intervention in the economy and for a self-regulated economy. Like its predecessor, today's neo-liberalism rejects an expanded role for the government in order to promote market dynamics. Unlike the past it fuels the attack on the welfare state seen as standing in the way.

The modern version of neo-liberalism first surfaced in the mid-1970s when President Carter campaigned for the Democratic Party's nomination on an anti-Washington platform. Launched in full by the Reagan administration in 1981, the policies have been pursued in varying degrees by every administration since then. Reflecting classic conservative doctrine, this laissez-faire approach seeks to restore profitability by channeling resources to those who save and invest and by limiting the role of the state. To this end it seeks to (1) lower the cost of labor, (2) shrink the welfare state, (3) limit the role of the federal government, (4) and weaken the influence of social movements. Regarded as a barrier to cheap money and cheap labor, the welfare state became an early target of neo-liberal reform. The now familiar tactics include (1) tax cuts, (2) retrenchment of social programs, (3) devolution or the shift of social welfare responsibility from the federal government to the states, and (4) privatization or the transfer of public responsibility to the private sector. The benefits of this pro-market strategy, they promised, would trickle down to the average person. Meanwhile, the New Right called for (5) restoring patriarchal "family values" and a colorblind social order.

The Neo-Liberal Program

The historical record shows that from 1945 to 1975 the welfare state expanded. But by the mid-to-late 1970s, neo-liberalism began to systematically halt this trend evidenced by declining tax revenues, mounting deficits, reduced federal spending, and the contraction of three core welfare state programs — Aid to Families with Dependent Children (AFDC), Unemployment Insurance (UI), and Social Security (SS). The expansion and contraction of these programs are typically discussed separately. But the analysis that follows reveals that similar tactics were employed in all three programs so that by the mid-1970s declines were felt across the board.

Falling Tax Revenues

Revenues from individual and corporate taxes rose rather steadily from 9.6 percent of the GDP in 1950 to a high 13.1 percent in 1969. These tax dollars, along with the Social Security payroll tax, funded the expansion of the government, including the welfare state until tax "reform" caused revenues to fall. Tax receipts ranged from 10 to 11 percent of the GDP in the 1970s and into the early 1980s, after which they declined again averaging about 9.5 percent of the GDP. Although the boom of the 1990s briefly drove tax receipts up,[5] by 2003, the Bush Administration tax cuts had lowered individual and corporate income tax revenues to 8.6 percent of the GDP — lower than in 1943.[6] The Center on Budget and Policy Priorities warns that unless Congress repeals a significant portion of the tax cut, a substantial majority of American households will be seriously worse-off in years to come.[7]

Mounting Deficits

During the expansionary postwar years, tax receipts typically covered the nation's costs. Indeed, between 1950 and 1970 the annual deficit (counting Social Security taxes) remained *less than* 1.5 percent of the GDP for fifteen of the twenty years or 75 percent of the time. Only five years showed a budget surplus (that is, 1951, 1956, 1957, 1960, and 1969). Since the early 1970s, however, high deficits have reigned. Between 1971 and 2002, the federal deficit *exceeded* 1.5 percent of the GDP during twenty-five of the thirty-one years or 80 percent of the time — peaking at 4.5 percent of the GDP in 1991. The deficit fell below 1.5 percent of the GDP in only three years. Likewise, there were only three budget surpluses.[8] In 2003 the deficit soared to $375.3 billion or 5 percent of the GDP and was projected to jump to $631 billion in 2004.[9] The International Monetary Fund warned that the U.S. deficit is now among the highest in the industrialized world and that if left unchecked it would threaten to increase global interest rates and choke long-term economic growth.[10]

Less Federal Spending

Total federal spending mirrored the pattern and timing of expansion and contraction. Fueled by robust tax revenues, total federal spending grew rather steadily during the postwar years from 15.6 percent of the GDP in 1950 to 21.5 percent GDP in 1975. Spending fell slightly to 20 and 21 percent in the late 1970s and early 1980s. After reaching 23.5 percent of the GDP in 1983 spending declined steadily to 18.6 percent — the same as in 1963. Spending was projected to fall to 15.8 percent of the GDP in 2004 — the lowest level since 1950.[11]

Since the Reagan era, opponents of "big government" have used the large deficit (created by low tax revenues and high military spending) to rationalize cutting social programs. Indeed, domestic discretionary spending jumped from 2.5 percent of the GDP in 1962 to a high of 4.8 percent in 1978 after which it dropped to 3.2 percent in 2001 — the same as in 1965.[12] As a share of the economy, spending will be lower in 2004 than it was in every year from 1975 to 1996.[13] After 2005 these cuts grow even larger.[14]

The End of Welfare, Social Security, and Unemployment Insurance as We Knew Them

The status of the AFDC/TANF, Unemployment Insurance (UI), and Social Security (SS) programs also mirror the pattern and timing of these larger trends. All three income support programs expanded during the postwar period due to population growth, liberalized eligibility rules, available tax revenues, the pressure of popular movements — and because they fueled profits. But both the troubled political economy and neo-liberal solutions led to a reduction in both the size of caseloads and the value of benefits. Most people know about welfare "reform" and its impact on the poor. But neo-liberalism did not spare the UI and SS programs that serve the middle class as well.

Smaller Caseloads

AFDC/TANF The absolute number of AFDC/TANF recipients rose from 2.2 million in 1950 to 11.3 million in 1976.[15] The numbers leveled off during the late 1970s and early 1980s but surged again during the economic slump of the early 1990s reaching a new a peak of 14 million in 1994 — two years prior to the passage of TANF (1996). Opponents of welfare used the steady growth and high numbers — along with the race card — to fuel support for "ending welfare as we know it." In 1996, Congress passed welfare reform, which stripped AFDC of its entitlement status, transferred responsibility to the states, converted AFDC from an income support to a work-first program, promoted family values, and stressed policies of deterrence and punishment.

But focusing only on the high numbers hid the fact that as a proportion of the *total* population and the *poverty* population the size of caseload had begun to decline in the mid-1970s — paralleling the rise of neo-liberalism. The governments own readily available data indicate that the AFDC caseload rose from 1.5 percent of the *total* population in 1962 to an all time high of 5.2 percent in 1975. But in 1995 — prior to welfare reform — the rolls had fallen to 4.5 percent of the total population. Even more telling, while the caseload rose from 9.3 percent of the *poverty* population in 1962 to a peak of 46 percent in 1973, by 1996 it had dropped to 33.3 percent of the poverty group.[16]

In 2001 after two decades of neo-liberal welfare reforms by the Reagan, Bush, and Clinton administrations, TANF assisted only 5.2 million recipients or 1.9 percent of the total population and 16 percent of those living in poverty. Except for a temporary rise during the recession of the early 1990s, the number of *eligible* families participating in the program plummeted from 80.2 percent in 1980 to 51.8 percent in 2000.[17] The real questions are how and what are the other 50 percent doing?

Unemployment Insurance The UI program similarly expanded during the postwar years and began to contract in the mid-1970s. The number of jobless workers receiving benefits rose from 26 percent in June 1968 to peak of 81 percent in April 1976. In the 1980s, despite high unemployment rates the number of insured workers began a gradual decline reaching 39 percent in June 2002.[18]

The contraction stemmed from the application of neo-liberal policies that undercut the attractiveness and/or the accessibility of the program. This included the taxation of worker's benefits (partial in 1979, full in 1989) and depriving the state UI programs of needed revenues by failing to raise either the wage base or the employer's tax.[19] In addition, in 1982, the federal government ceased to make zero interest loans to states with insolvent UI trust funds. This significantly increased the cost of borrowing and forced the states to reduce their UI spending. By the early 1990s, many state UI funds had regained solvency. Instead of increasing benefits or protecting the trust fund's solvency, elected state officials cut UI taxes. This won support from employers but put future UI benefits for workers at risk. [20]

Social Security Despite its universality and popularity, the SS program has not escaped the neo-liberal assault. The Reagan Administration took unprecedented aim at the program in the early 1980s. In the name of protecting the solvency of the Social Security Trust Fund, it gradually raised the retirement age, limited eligibility, and otherwise slowed the growth of SS. But the main neo-liberal goal continues to be privatization. Current proposals would encourage individuals to replace their Social Security retirement pension with a private IRA and/or invest a portion of the SS trust fund in the stock market. Channeling public dollars and better off recipients into the private sector would be a boon for Wall St. But it would weaken the nation's strongest entitlement by converting it into a much smaller program, mostly for the poor. The privatization of public programs also eliminates government jobs that are filled largely by white women and persons of color.

Lower benefits

The shift from demand to supply-side economics also undercut the benefit structure of AFDC/TANF, SS, and UI. During the expansionary post-war years the government liberalized benefits in all three programs. By the mid- to late-1970s, however, benefit amounts began to stagnate or fall.

AFDC/TANF The dollar amount of the AFDC/TANF benefit for a family of three rose from $121 in 1962 to $389 in 1993 and then fell to $351 in 2001. But when inflation is taken into account, the value of the grant peaked and fell much earlier. The real purchasing power (2001 dollars) of the grant rose from $634 in 1962 to a peak $766 in 1969 after which it fell steadily to $351 in 2001. Between 1970 and 2000, it plummeted by 47 percent. Likewise, welfare expenditures rose from $21 billion in 1970 to $32 billion in 1976, then dropped to $12.8 million in 2001.[21]

Unemployment Insurance UI benefits increased from $25 or 32 percent of the average total weekly wage in 1955, to a peak of $70 or 37 percent in1975. Although the UI benefit reached $200.29 in 1998, its value now equaled only 32.9 percent of the total average weekly wage — about the same as in the 1955.[22] In April 2002, despite mounting long-term joblessness, 50 percent of those without work ran out of their regular UI benefits, up from 32 percent just one year earlier.[23]

Social Security SS benefits also lost ground after the mid-1970s, although more slowly than AFDC and UI. The Reagan administration eliminated the minimum grant, reduced the age at which benefits ceased from 18 to 16 for children of a widow or widower, cut benefits for post-secondary students, and modified the cost of living adjustment. The wage replacement rate for the average earner rose from 19.7 percent in 1950 to a high of 54.4 percent in 1981, then slowly fell to 39.2 percent in 2000.[24] Annual benefit increases paint a starker picture. They rose from 7.0 percent in 1965 to 14.3 percent in 1980, after which they fell steadily reaching a low of 1.4 percent in 2003.[25]

The Impact of Neo-Liberalsim

Begun in the mid-1970, the neo-liberal attack on the welfare state has furthered corporate America's drive for a smaller welfare state, lower labor costs, and an upward redistribution of income. Profits have soared at the price of lower wages, deeper poverty, greater inequality, and mounting hardship.

Lower Labor Costs Neo-liberalism furthered corporate America's drive for cheap labor. The combination of job insecurity created by de-industrialization and globalization and the well-documented attack on organized labor forced workers and unions to accept inferior wage and benefit packages. The retrenchment of the welfare state furthered the downward pressure on wages. The loss of income supports flooded the labor market with thousands of workers in need of a job. The increased supply of workers made it easier for employers to press wages down and harder for unions to negotiate strong contracts.

Wages, which had risen during the postwar years, began to lose ground. Between 1964 and 1973, the real average hourly wages (in 1982 dollars) of production workers rose from $7.79 to $9.02, after which the wage dropped steadily to a low of $7.52 in 1995. It then rose slightly to $7.98 in 2000.[26] The year-to-year wage increases also climbed sharply during the post-war period from 4.0 percent in 1964 to 8.6 percent in 1979 and 8.8 percent in 1981 after which they declined steadily falling to 2.0 percent in 1987. Following minor ups and downs in the 1990s the estimated increase for 2004 dropped to 1.8 percent.[27]

Nor did workers benefit from recent economic growth. Normally about 65 percent of the growth in national income flows to labor while 15 to 18 percent goes to corporate profits. In 2002–03, an unprecedented shift occurred. Corporate profits soared to 41 percent of the growth in national income while labor received only 38 percent. For the first time since World War II, more than 20 percent of the national income growth rose to the top.[28]

Poverty Not surprisingly, the number of people living below the poverty line also grew. U.S. poverty dropped dramatically during the postwar years from 22.2 percent in 1960 to 11.4 percent of the population in 1979. It jumped to a high of 15 percent in the 1980s. After falling during the boom of the 1990s, the rate climbed back to over 12 percent in 2002.[29]

Hardship The falling standard of living has raised corporate profits while increasing human misery. Growing numbers of the poor and working poor report severe problems with mortgage payments, overcrowding, family health, insufficient food, and lack of access to health care services to name only some of their mounting hardships.[30]

Inequality The neo-liberal goal of fueling profits by redistributing income from the have-nots to the haves has made considerable headway — evidenced by greater inequality. From 1947 to 1975 the share of the national income held by the top 20 percent of families actually fell from 43.0 percent 40.7 percent, while the share held by the lowest one-fifth of families grew from 5.0 percent to 5.6 percent. In sharp contrast, since the mid-1970s the gap between the rich and poor has widened. In 2001 the top fifth held 47.7 percent of the national income compared to only 4.2 percent for the bottom fifth.[31]

Saving Capitalism From Itself?

To date corporate America has enjoyed the gains of neo-liberalism. But the warnings of the Center on Budget Priorities and the International Monetary Fund noted above, raise serious questions about the strategy's long run benefits to capital. Further, Kotz, a professor of economics, found that the output and productivity achieved during the first two decades of neo-liberalism compared unfavorably to those reported during the demonized "big government" period.[32] Krugman, an economist and *New York Times* columnist, reported that neither the neo-liberal tax cuts nor the recent gains in productivity have yielded the promised jobs.[33] Since business invests only when it believes that consumption will rise, it is unclear whether the neo-liberal policy, which has lowered the standard of living for so many will, in the long run, save capitalism from itself. In the past, market inequalities have sparked mass protests. The time may be ripe for social movements to rise up angry and demand a greater share of the economic pie.

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